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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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The Backup In Mortgage Rates . . .

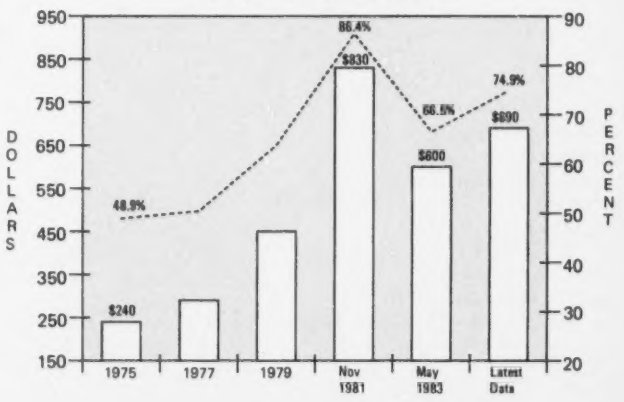
Despite signs of a strong rebound in the pace of business activity—including the largest monthly drop in the unemployment rate in almost 25 years in July and a 1.8 per cent jump in industrial production during the same month—one crack may have appeared in the wall of recovery. With mortgage interest rates backing up and some home prices firming, affordability has again become an obstacle to sustained recovery in the housing industry. The impact of swings in interest rates on people's ability to buy is greater for the purchase of a home than for any other outlay the average consumer makes. Thus, the recent upturn in mortgage rates may have halted the nascent housing boom.

The earlier housing recovery was clearly bolstered by a sharp decline in mortgage interest rates. They fell from a peak of 18.5 per cent in November, 1981, to about 12.5 per cent by May, 1983. And, with the median price of new single-family homes sold in November, 1981 at $71,200, nearly nine out of every ten households found themselves priced out of the new home market. This is because principal and interest payments on a 30-year conventional mortgage contracted at 18.5 per cent for a median-priced new home totaled about $830 a month (after assuming a 25 per cent downpayment), absorbing 52 per cent of gross median household income.

By contrast, with mortgage rates at 12.5 per cent in May, 1983, the monthly mortgage payment was reduced to about $600—despite the fact that by this time the median price of a new single-family home had reached $75,400. Taking into account the rule of thumb that monthly mortgage payments should not exceed one quarter of a household's monthly gross income, approximately one out of every three households was able to meet this requirement in May. Thus, the saving of $230 in monthly mortgage costs opened the door for nearly 17 million additional households to qualify for a mortgage.

Not surprisingly, with affordability enhanced, demand picked up, causing housing starts to jump to an annual rate of 1.8 million units in May—their highest level in 3½ years, and nearly double year-ago rates. So, too, sales of new and existing homes soared, while builders' inventories of unsold homes plunged. They fell to 5.1 months' supply—the lowest in seven years. With inventories lean, some builders reported problems they have not faced for years—shortages of building lots and of such construction materials as lumber, gypsum and roofing.

AVERAGE MONTHLY MORTGAGE PAYMENT (BAR) VS. % OF HOUSEHOLDS THAT ARE PRICED OUT OF NEW HOME MARKET (DOT)



. . . Slams The Door For Many Homebuyers . . .

Since May, however, mortgage rates have again begun to ratchet upward, reaching 14 per cent on conventional fixed-rate mortgages by early August. What is more, with new home prices rising, the 150 basis point backup in mortgage rates has already slammed the door on nearly seven million would-be homebuyers, as their gross annual income falls about $4,000 short of meeting affordability requirements. A fourteen per cent mortgage rate means that the monthly payment on a 30-year conventional mortgage for a median-priced new home of $77,200 amounts to $690, absorbing 38 per cent of gross median household income. When such costs as property taxes, insurance, utilities and maintenance are added to mortgage debt service, the proportion of gross median family income needed to service the cost of homeownership rises even higher. Only one out of every four households can now meet the financial conditions to qualify for a mortgage (see chart). As a result, new home sales eased 2.9 per cent in June and starts for the construction of

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single-family homes declined 11.9 per cent in July, following a drop of 3.1 per cent in June.

. . . While The Strong Dollar . . .

While the substantial appreciation of the dollar since late 1980 has slowed domestic economic growth by depressing exports while encouraging imports, it has often been said that at least consumers have benefited through lower import prices. So far, however, these benefits have not been as great as might be expected. Whereas the dollar has advanced by some 40 per cent since 1980 on a trade-weighted basis, import prices have fallen by only seven per cent.

Although several factors explain why import prices have not fully reflected the dollar's strong gains, one of the most important is the ongoing escalation of prices abroad. For not only has the United States suffered from inflation, but so, too, have our major trading partners. Almost without exception, they have experienced an annual rate of inflation in excess of five per cent since 1980. As a result, while the dollar was appreciating by more than ten per cent annually during the period, as much as one half of the U.S. price effect was erased by rising domestic prices in Europe and elsewhere.

While foreign inflation rates have limited the descent in import prices, so, too, have specific actions taken by foreign exporters to maintain the dollar value of their goods. These actions appear to have been most pronounced in the automobile industry—where foreign exporters evidently felt that lower prices would do little to enlarge their market share. This is partic-

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 8/10/83	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	152.847	– .008	+11.942
Loans to Depository Inst.	1.520	+ .205	+ 1.151
Float	1.243	– .384	– 1.102
Total Reserve Bank Credit	164.238	– .034	+10.469
Treasury Deposits with Federal Reserve Banks	3.812	– .212	– .138
Currency Outside Banks	144.245	+ 1.054	+11.873
Member Bank Reserves:			
Required	37.695	– .753	– 1.467
Excess (Deficiency)	.490	– .099	+ .164
Total Reserves Held	38.185	– .852	– 1.303
Net Borrowed Reserves	.395	+ .306	+ .549
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	110.746	– 1.237	+14.925
Monetary Aggregates †		**% Change Since Three Months Ago***	**% Change Since Year Ago**
M1	516.9	+ 14.3‡	+ 13.3‡
M2 (July '83)	2,125.8	+ 9.9	+ 11.5
M3 (July '83)	2,509.9	+ 9.1	+ 8.9
Domestic Nonfinancial Debt (1st Q'83)	4,855.3	+ 8.9	+ 9.8

† Seasonally adjusted. * Seasonally adjusted annual rate. ‡ Four-week moving average.

New York Money Market

Offering Rates 8/19/83	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	9.30%	9.42%	9.45%
* Federal Agencies	9.90	10.00	10.65
* Project Notes—Taxfree (46% Taxable Equivalent)	8.98	9.54	11.20
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	9.80	10.05	10.65

‡ Finance Company Paper—Prime

5- 14 days	9.13%
15- 29 days	9.13
30- 59 days	9.38
60- 89 days	9.50
90-179 days	9.50
180-239 days	9.50
240-270 days	9.50

‡* Bankers' Acceptances

Sep.	9.60%
Oct.	9.60
Nov.	9.68
Dec.	9.75
Jan.	9.75
Feb.	9.65

‡ Industrial Paper—Prime

30- 89 days	9.38%
90-120 days	9.45

† Federal Funds Effective Rate 9.45%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'83	$ 3,270r	$ 3,172	$ 3,070
Gross National Product (1972 Dollars)*	2nd Q'83	$ 1,523r	$ 1,490	$ 1,485
Percent Change, Annual Rate	2nd Q'83	9.2r	2.6	0.9
Change in Consumer Prices (new series)*	Jun '83	2.4%	6.0%	13.2%
Change in Producer Prices*	Jul '83n	1.2%	6.0%	6.0%
Civilian Employment (Thousands of Persons) †	Jul '83	101,285	100,786	99,588
Unemployment as % of Civilian Labor Force †	Jul '83	9.5%	10.0%	9.8%
Personal Income*	Jul '83n	$ 2,751	$ 2,736r	$ 2,590
Leading Indicators Composite Index (1967=100) †	Jun '83	155.9	154.3	135.5
Industrial Production Index (1967=100) †	Jul '83n	148.6	146.0r	138.8
Net Change in Consumer Installment Credit †	Jun '83n	$ 4.41	$ 2.70	$ 2.02
U.S. Merchandise Trade Balance †	Jun '83	–$ 4.96	–$ 6.91	–$ 3.31
Plant and Equipment Expenditures*	3rd Q'83	$306.83(a)	$302.23(a)	$315.79
Private Housing Starts (Thousands of Units)*	Jul '83n	1,741	1,752r	1,185
New Construction Expenditures*	Jun '83	$ 259.7	$ 253.2	$ 233.4
Total Business Inventories †	Jun '83n	$ 505.0	$ 505.7r	$ 521.0
Total Business Sales †	Jun '83n	$ 371.6	$ 364.1r	$ 349.7

* Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

ularly true of Japanese auto exporters, whose sales to the U.S. have been subject to a numerical quota.

. . . Has Provided Few Consumer Benefits

In addition, retail prices consist of many non-imported costs, such as those associated with distribution and marketing. Trends in these costs and such special considerations as the uniqueness of the product may separate import prices from the external value of the dollar. Take, for example, such a product as the Mercedes Benz 300-D. Possessing a special niche all of its own, its price has risen from around $24,000 in 1980 to nearly $31,000 currently—despite a more than 30 per cent appreciation of the dollar against the D-mark during the period. Although changes and improvements on this model may be partially responsible for the increase in price, there is no doubt that the special appeal of this car has insulated its dollar price from the decline in the value of the D-mark compared with the U.S. currency.

Some U.S. prices have responded to the strong dollar. Prices of such imported commodity-type goods as foods, beverages and industrial raw materials have fallen over the past few years. Here, substantial competition appears to have prompted foreign suppliers to mark down their prices as the dollar appreciated. Between 1981 and early 1983, the dollar prices of foods and beverages fell by 15 per cent, while those of industrial supplies declined by almost 12 per cent. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (8/3/83)	93,168	– 613	–53,072
New York City (8/3/83)	21,910	+ 125	–16,448
Commercial Paper (8/3/83)	172,173	– 755	– 8,085

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/3/83)	215,448	+ 2,207	+ 3,798
New York City (8/3/83)	59,498	+ 828	+ 87

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/3/83)	509,160	+ 4,545	+13,600
New York City (8/3/83)	119,185	+ 2,753	+ 2,518

Financial Markets

	Friday 8/19/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	9.59%	– .12	+ 2.34
180-Day Bills†	9.99	– .13	+ .94
Longest Bills†	10.28	– .25	+ .18
Recent Issues:			
$10^5/_8$s 7/31/85	10.76	– .33	
$10^1/_2$s 6/30/87	11.29	– .18	
$10^1/_8$s 5/15/93	11.62	– .15	
12s 8/15/13	11.64	– .09	
Municipals:			
Bond Buyer–20 Bond Index* (8/18/83)	9.70%	– .15	– 1.12
Blue List Total ($ Million)	$1,023	– $197	+ $278
30-Day Visible Supply ($ Million)	$2,283	+ $130	+ $490
Total	$3,306	– $ 67	+ $768
Corporates:			
Moody's Aa Composite (8/18/83)	12.70%	– .18	– 1.42
30-Day Visible Supply ($ Million)	$ 555	-0-	– $ 570
Stocks:			
Dow-Jones Averages:			
Industrials	1,194.21	+ 11.38	+ 324.92
Transportation	533.73	– 5.89	+ 209.69
Utilities	130.88	+ 2.94	+ 15.52
65 Stocks	471.11	+ 2.43	+ 137.46
Standard and Poor's 500 Stocks	163.98	+ 1.82	+ 50.96
N.Y.S.E. Composite Index	94.92	+ 1.08	+ 30.27
N.Y.S.E. Avg. Daily Vol. for Week (000's)	76,850	+ 4,054	– 14,322

* 46% Taxable equivalent 17.96%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 8/19/83	Week Ago
Overnight	9.56%	9.63%
1 month	9.81	9.88
3 month	10.19	10.44
6 month	10.56	10.88
1 year	10.81	11.13
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	12.15%	12.35%
Long Term (7 to 15 yrs.)	12.00	12.10

FOREIGN EXCHANGE SPOT RATES

New York Opening (8/19/83)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01882	53.13
Canada	.8102	1.2342
Denmark	.1046	9.5575
France	.1255	7.9700
Germany	.3773	2.6503
Italy	.0006333	1579.00
Japan	.004109	243.38
Mexico	.00669	149.50
Netherlands	.3372	2.9653
Switzerland	.4646	2.1522
U.K.	1.5193	.6582

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